



**DISASTER  
RECOVERY  
SERVICES**

# WATER DAMAGE AND INSURANCE IMPLICATIONS



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# Introduction

Water damage is having a significant impact on building insurance as the frequency and cost of water damage losses continue to increase. Domestic plumbing issues are the primary cause of water damage for commercial buildings, with most claims involving leaking pipes caused by corrosion, burst pipes, or overall failure. For every property or business, the solution to water damage losses is a balance of three factors: risk appreciation, risk assessment (including a water damage Mitigation Plan), and water detection technology to address the inevitable gaps. Prevention of water damage from various culprits, such as bursting or leaking pipes, bathroom and kitchen plumbing issues, leaking roofs, and many more, is possible with proper maintenance and care.

Disasters and the unexpected can strike at any time, causing damage to even the most prepared properties. When this happens, insurance and restoration are the forefront concerns as businesses and homeowners strive to return their properties to normal. This paper provides risk and facilities managers with a basis of understanding on the insurance risks associated with common water damage, helps business and homeowners to start the development of a risk mitigation plan, and allows anyone in this situation to take specific and actionable measures to protect your assets and reduce the impact and costs of water damage to your business.

For more information regarding the root causes of water damage and restoration services, check out our paper

 **WATER DAMAGE: ISSUES AND RESTORATION**

# How It Affects Your Business

## STATS AND NUMBERS

Water damage from leaks, pipe bursts, and other plumbing issues are more costly and common than one might expect. According to insurance industry statistics, the frequency and cost of water damage losses are continuing to increase. While no business class is truly immune, commercial real estate (especially high rises), residential, hotel, and health services industry classes are experiencing significant interior water damage claims.

## STATISTICAL DATA

Water claims costing more than \$1M have tripled since 2015

\$1.2B - Estimated annual non-weather water damage losses (Global)

Water damage is the 3rd most common global claim received\*

2nd most frequent claim for homeowner's insurance is water damage or freezing

The average cost of commercial water damage loss is \$89,000

Water damage ranks #8 out of the top 10 global causes of loss by total value (at 3% value)\*

19.5% of homeowners' insurance incurred losses are from water damage and freezing (U.S.)

Annual economic losses from weather-related disasters are estimated at \$300 billion.

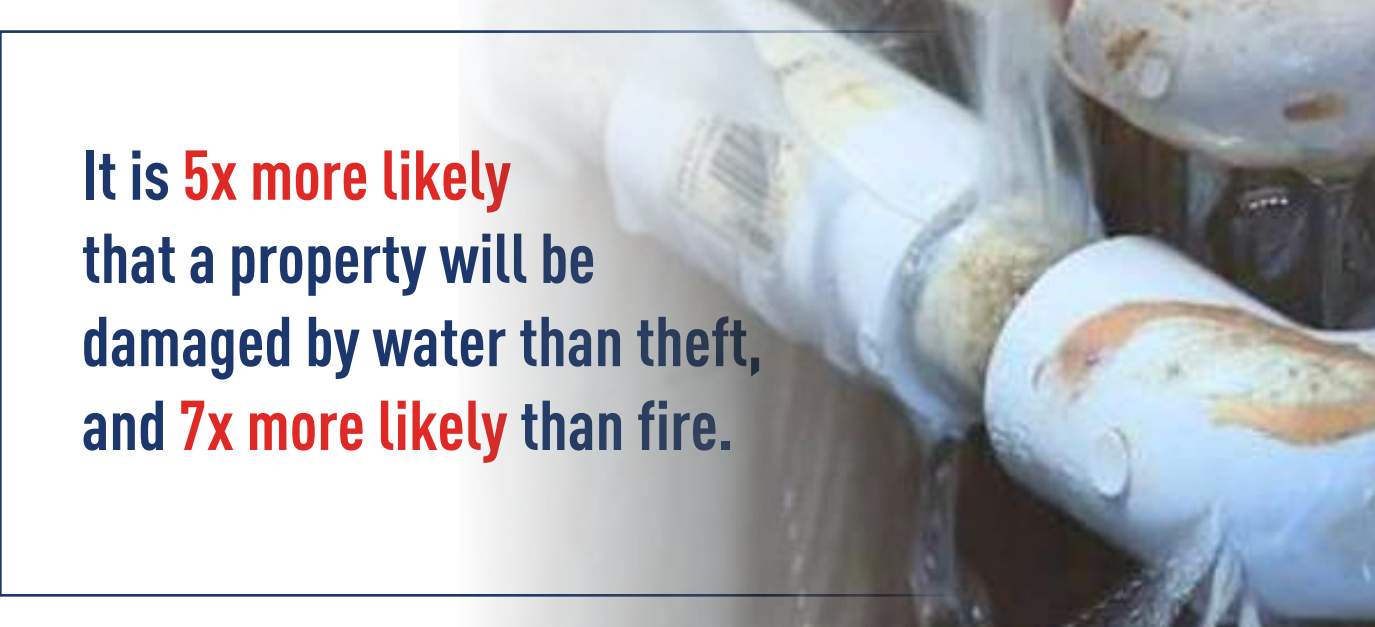
\*Based on analysis of more than 470,000 insurance industry claims

\*\*Sources: Chubb, iProperty Management, Forbes, UNISDR

# Insurance Claims

## TYPES OF WATER DAMAGE

According to the Insurance Information Institute, water was the third-leading cause of claims in the past decade with an average of almost \$10,000 per claim.



**It is 5x more likely that a property will be damaged by water than theft, and 7x more likely than fire.**

There are two common types of plumbing supply system failures. The first is from frozen pipes, which can burst due to a buildup in water pressure caused by freezing water in an adjacent section of the pipe. This accounted for 18% of all plumbing supply system claims in the past ten years. The second, and most common, occurs when the system materials fail and result in a leaking or bursting pipe. This type of failure represents two of every three plumbing supply system claims. Drain system failures are another top source of claims with \$4,500 per incident paid in claims. Sewer backup in finished basements was a leading source, as well.

Water damages can go beyond surfaces and seep into a building's structure. The consequences of foundational water damage can vary and occur in several ways. Regardless, it is never welcome news and should be acted upon quickly. Foundational damage may be "structural" or "non-structural," even though they both affect the building's overall integrity.

Structural damage occurs when the issue is prolonged and vast, causing the building to shift under its own weight. Vertical stability is crippled, leading the structure to sink further into the ground. Walls of basements or other underground areas, like parking garages, may flex inward as they become unsound. Non-structural typically refers to seepage through small cracks in a foundation or cracks or gaps in joints of a concrete basement wall; basically, "pre-structural damage" if neglected. Non-structural damages are not generally considered major. If the problem is left unattended and persists, re-stabilizing a foundation is often an extensive and expensive undertaking. Other serious damages that must be addressed as soon as possible can come from slab leaks, rusting steel, and rotting wood.

## WHAT IS COVERED?

Water damage insurance is a type of protection provided in most insurance policies against sudden and accidental water damage. It does not cover any damage resulting from the policyholder's negligence or failure to maintain the plumbing systems, and a separate policy is usually required for flooding.

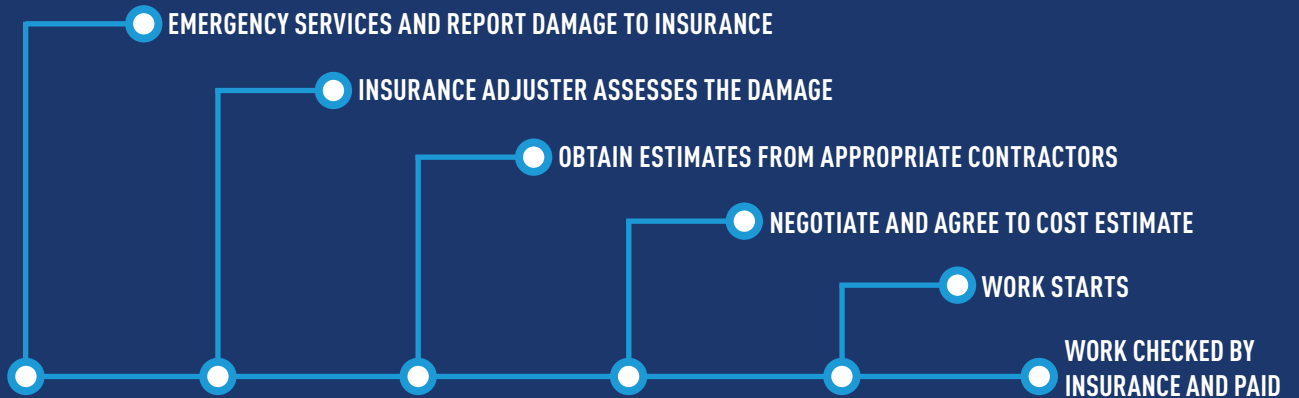
Since water damage insurance does not cover negligence, many types of water damage to property can and should be avoided through proper maintenance. It can be as simple as watching for drippage during a rainstorm or fixing a leaky pipe before mold becomes prevalent. Yet bigger jobs can involve water heater or boiler room replacements, pipe replacements, and HVAC cleaning and repair.

## The Most Common Causes for Water Damage Claims:

- Floods
- Sewer backups
- Storm-related damage
- Sudden or accidental discharge
- Overflow and clogged toilets
- Leaky dishwashers
- Broken dishwasher hoses
- Leaky roofs
- Foundation cracks
- Plumbing leaks
- Broken pipes
- Heavy snow
- Heavy rain



# Insurance Claim Timeline



## 1. EMERGENCY SERVICES AND REPORT DAMAGE TO INSURANCE

- At the onset of an issue, the first thing you want to do is contact an emergency restoration company to mitigate the problem. The restoration company will assess the type of water damage and affected areas to determine what you need. Utilizing pumps, vacuums, and other necessary tools, the emergency restoration crew removes any standing water.
- As this is being performed, along with the inspection assessment, a claim must be reported to the insurance company to get the ball rolling on all following processes. Typically, the sooner this step is completed, the better the outcome. If you wait, you might miss deadlines and impact how quickly a claim payout is received.
- Do not throw out damaged items or anything related to the damage until the claim gets settled. Do not skip ahead to repairs and restoration, as making repairs before approval from the insurance company, preferably in writing, could mean not getting the costs covered. Only perform what is necessary to prevent further damage.
- Do not call it a “flood” when filing a claim. Be specific about what damage has occurred, as most standard policies exclude coverage for floodwaters.
- Review your policy
  - Figure out what types of water damage is covered in your policy, what’s not covered, and what the deductibles are. If you’re unclear about coverage, contact your insurance agency or company.
- Document the damage
  - Take photos and videos of the water damage.
- Keep receipts for any temporary repairs
  - It may be covered by your policy. However, don’t make any permanent repairs until an adjuster has evaluated the damage, as it could jeopardize payment of a claim.



## 2. INSURANCE ADJUSTER ASSESSES THE DAMAGE

- Thermal imaging is crucial in building walls and envelopes. The adjuster will assess the damage and determine how much you should receive in the claim. It is possible to consider hiring a public adjuster, as they will typically provide the most honest, unbiased assessment.
- Keep track of all communication with the insurance company
  - This should include the date, name, and title of each person spoken with and what was discussed.

## 3. OBTAIN ESTIMATES FROM APPROPRIATE CONTRACTORS

- Investigate estimates and make sure the scope is detailed for every part of the building affected, both the surface and beneath the surface.
- Obtain repair bids
  - Research and contact several contractors to compare them with the adjuster's report before settling the claim.

## 4. NEGOTIATE AND AGREE TO COST ESTIMATE

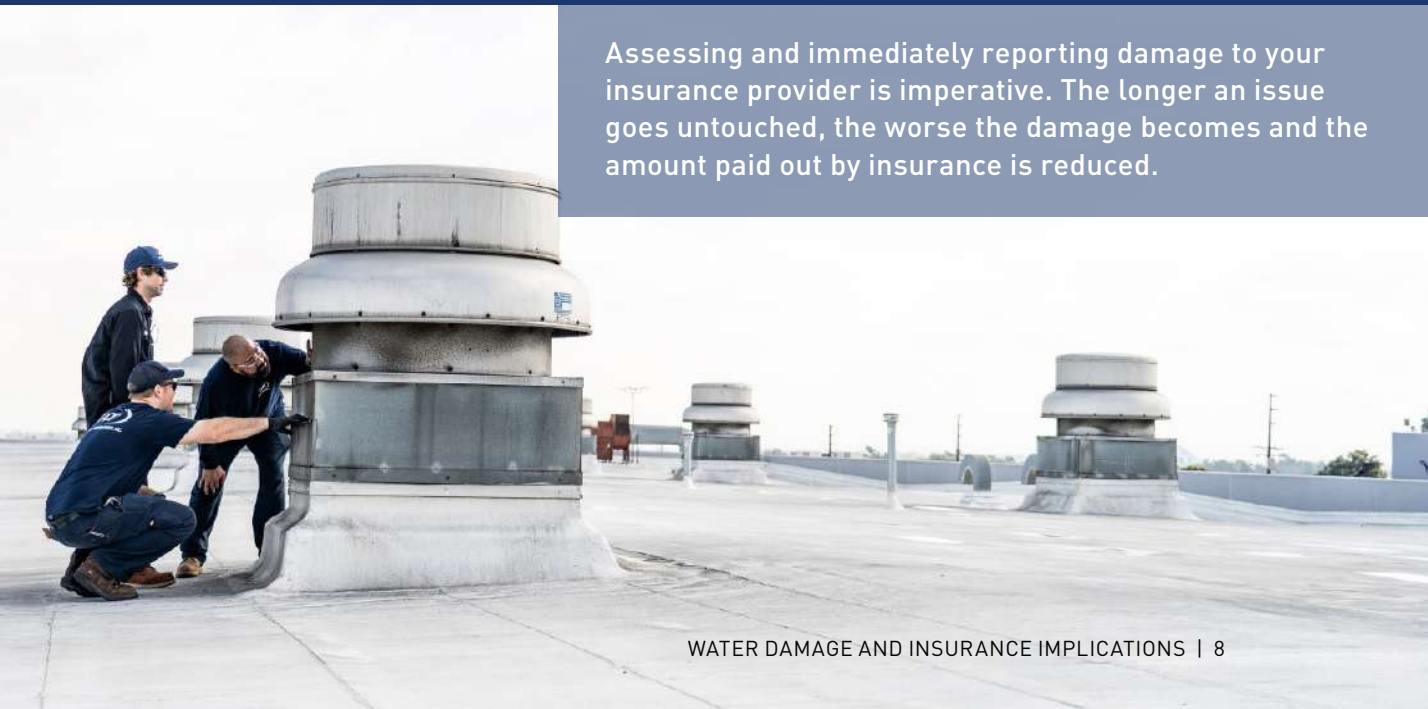
- Use the estimates received and the reports from the outside insurance adjuster to negotiate a settlement. If you find additional damages after you receive your insurance check, you can renegotiate to have the new expenses covered.

## 5. WORK STARTS

- Be sure to keep track of receipts and invoices throughout this process.

## 6. WORK CHECKED BY INSURANCE AND PAID

- Depending on the claim—from onset of damage to final building restorations—the payment from your insurance company could take a few days or a few months. When proper action on steps 1-5 are taken, the payout time will likely be less.



Assessing and immediately reporting damage to your insurance provider is imperative. The longer an issue goes untouched, the worse the damage becomes and the amount paid out by insurance is reduced.



## Case Study - What Happened in Texas?

Back to back winter storms swept through Texas in February. In an unforeseen series of events, a state that was understandably unprepared for such extreme, freezing weather has been left with what is estimated to be a few billion dollars in damages related to the storms. Millions of residents experienced prolonged periods without power and water, many of which are still left without access to clean, running water as of early March.

Texas has experienced many devastating hurricanes throughout the years, especially throughout the past decade. Despite these catastrophic tropical storms, homeowners and other policyholders will end up filing more insurance claims from February's damages than any other weather event in the state's history. As of February 20th, a spokesperson for USAA reported over 30,000 Texas insurance claims and State Farm had reported nearly 20,000. The high majority of these claims are associated with burst pipes and issues resulting from power outages, all inflicted by the extreme freezes. The year before, in 2020, State Farm received only 75 insurance claims for frozen water pipes, totaling a state average of \$10,300; the nationwide average for 2020 was \$15,500.



While many Texans are coping with the destruction left behind by freezing and bursting pipes, it is fortunate to mention that this is typically covered by homeowners and commercial property insurance policies. The coverage likely includes repairs and cleanup related to water damage resulting from burst pipes. An insurer can deny any claims if it's discovered that heat was intentionally shut off or the policyholder failed to properly safeguard the pipes from freezing. In addition, slow, gradual leaks often aren't covered by commercial property policies. This is because companies see this as negligence—something that could have been prevented with proper maintenance. Luckily, given the unexpected extremity, this was likely not a factor for anyone affected by the storms.

The U.S. Government partially approved the request for a Major Disaster Declaration for 77 counties in Texas. Through the federal government, FEMA has provided—and will continue to provide—individual assistance in those 77 counties and public assistance for emergency protective measures in all 254 Texas counties. Assistance can include grants for temporary repairs, low-cost loans to cover uninsured property losses and other programs to help individuals and businesses recover.



According to the U.S. Small Business Administration (SBA), businesses of all sizes and private, nonprofit organizations may borrow up to \$2 million to repair or replace damaged or destroyed properties, machinery and equipment, inventory and other assets. SBA is also offering additional lending to businesses and homeowners to help with the cost of improvements to protect, prevent or minimize the same type of disaster damage from occurring in the future. Economic injury disaster loans are available to help meet working capital needs caused by the disaster and are available to businesses regardless of any property damage.

For homeowners, disaster loans up to \$200,000 are available to repair or replace damaged or destroyed real estate. Homeowners and renters are eligible for up to \$40,000 to repair or replace damaged or destroyed personal property.

Interest rates can be as low as 3% for businesses, 2% for private nonprofit organizations and 1.25% for homeowners and renters with terms up to 30 years. Loan amounts and terms are set by SBA and are based on each applicant's financial condition.

For more information on the equipment and processes used to restore these properties in Texas, check out our paper

 **WATER DAMAGE: ISSUES AND RESTORATION**





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